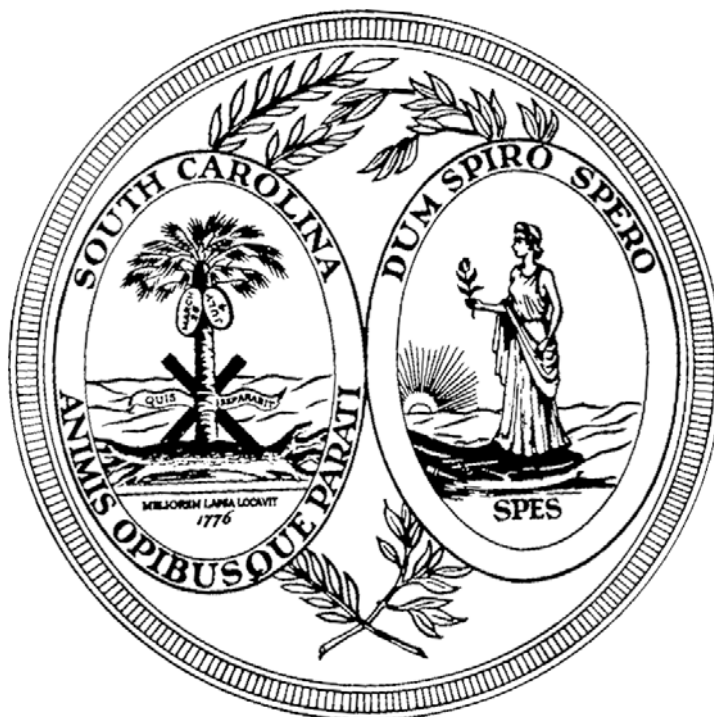


STATE OF SOUTH CAROLINA

DEPARTMENT OF INSURANCE



AGENCY ACCOUNTABILITY REPORT

FISCAL YEAR 2005-2006

Section I – Executive Summary

1. Mission and Values

The mission of the South Carolina Department of Insurance is the protection of the insurance consumer, the public interest and the insurance marketplace.

The South Carolina Department of Insurance (“the Department”) is responsible for ensuring the solvency of insurers, administering and enforcing the insurance laws of the state, and regulating the insurance industry in an efficient, courteous, responsive, fair and equitable manner. Our mission is carried out through professional services, including examinations and analysis of insurance companies; consumer education, outreach and assistance; review and approval of certain insurance rates and policy forms; licensure of insurers, individual agents and related entities and disciplinary actions related thereto; and collection of premium taxes and fees on behalf of the state and its subdivisions. The Department adheres to certain principles and values that guide our actions:

- Integrity;
- Accountability;
- Concern regarding the issues affecting our stakeholders;
- Professionalism;
- Customer service;
- Leadership;
- Employee growth and development;
- Open lines of communication with all stakeholders; and
- Quality performance.

2. Major Achievements

- The Department underwent its five-year accreditation review by the National Association of Insurance Commissioners (NAIC) during the week of May 22-26, 2006. To achieve accreditation, a state must receive an average score of 3.0 or “good” for each area reviewed. The Department received superior scores of 3.68 for Financial Analysis, 3.70 for Financial Examinations, and 3.69 for Information Sharing and Procedures for Troubled Companies. The Department was officially re-accredited at the NAIC’s Summer Meeting in Washington, DC in June, 2006.
- South Carolina has become the third largest domicile for captive insurance companies in the United States. During the past fiscal year, the Department licensed 30 new captives in South Carolina, bringing the total number of licensed captives to 152.
- The Department worked closely with the South Carolina legislature to ensure passage of H.3966, which was signed into law on June 1, 2006. This legislation clarifies issues relating to captive insurance companies in South Carolina, primarily protected cells and Special Purpose Financial Captives (SPFCs). Several SPFCs and companies interested in forming SPFCs have expressed an interest in using protected cells so they can securitize more than one block of business within the same captive insurance company. An important issue with respect to protected cells is whether or not assets and liabilities of each protected cell are truly segregated. The revisions are intended to further clarify the segregation of assets and liabilities and to make it clear that, although a

protected cell is not a separate legal entity, it can be sued and liquidated separately from the SPFC. The revisions also provide for separate reporting and capitalization of the protected cell. This legislation will benefit the captive industry in South Carolina greatly by clarifying these issues, as opposed to leaving it to be decided by the judicial system. South Carolina is the only state using its captive program for these types of transactions, which is a significant competitive advantage.

- The State of South Carolina derived increased premium tax and related revenue from growth in the number and size of captive insurers. Captives paid more than \$2.5 million in premium taxes last year, an increase of \$1 million from the prior year. Additionally, captives paid almost \$300,000 in fees last year. More significantly though, an additional \$11.1 million in economic impact is generated in South Carolina in the form of payroll taxes, expenditures for office space, fees paid to consultants, and hotel, restaurant and other entertainment expenditures. As this industry continues to flourish, conservative estimates show that the financial impact of the captive industry in South Carolina could reach \$15 million or more during the next fiscal year.
- The Department restructured the Alternative Risk Transfer Services (ARTS) division to better allocate resources to accommodate growth and the additional regulatory responsibilities associated with existing captive insurers. ARTS is now part of the Department's Financial Services Division, which is appropriate because captive programs are inherently and primarily financial transactions. The new Deputy for Financial Services not only has a strong insurance accounting background, but has private sector experience with captives and the reinsurance industry. Day-to-day operations of ARTS are managed by a new Program Manager with more than 10 years of experience in the captives industry. Professional staff with high-level technical skills are able to focus on large, complex transactions and other staff are being more appropriately used based on their skills and abilities and the needs of the captive program. These changes have better enabled the Department to keep up with the continuing growth of new captives, to timely and appropriately respond to the needs of existing captives, to meet regulatory responsibilities with respect to solvency, and to reduce the stress level for key employees.
- The Department received a passing score on the yearly NAIC Market Analysis Score Card in December, 2005. A passing score evidences the Department is fulfilling its obligation to monitor and regulate insurance companies and the marketplace, with the goal of identifying emerging trends that may be harmful to consumers.
- The Director served as an ex-officio member of the Governor's Task Force on Workers' Compensation Reform, specifically established to address and stabilize the escalating costs of workers' compensation insurance. The Task Force made numerous recommendations, many of which formed the basis for H.4427. While an amended version of H.4427 passed the South Carolina House of Representatives, it failed to pass the Senate. This is an on-going issue which will continue to be followed closely by the Department.
- The Department assisted in evaluating the performance of the National Council on Compensation Insurance (NCCI) as the rating organization and assigned risk plan administrator for workers' compensation. As Chair of the Workers' Compensation Advisory Board, the Director focused on identifying the statutory, regulatory or other objective standards of review to be used in evaluating NCCI's performance. There was general consensus among the members of the Advisory Board that, while NCCI's performance was reasonable, more specific performance standards should be put in place. The final report on the performance of the NCCI, as the workers' compensation rating bureau, was issued to the South Carolina General Assembly by December 10, 2005.

- The number of insurers writing workers' compensation insurance remained constant, compared to 10 carriers which left the market the previous year.
- To reduce the number of policies in the workers' compensation assigned risk program, the Director approved the Voluntary Coverage Assistance Program (VCAP), an automated program offered through the NCCI, which assists producers and employers in finding voluntary workers' compensation coverage. Its purpose is to depopulate the assigned risk plan by matching employers with voluntary market insurers, at lower rates. The results of this program have already generated cost savings to employers, mostly small businesses. 309 assigned risk applications were reviewed for the VCAP program and 7 policies were placed with a voluntary carrier, resulting in an average savings of \$872 per policy, which is significant to a small business. Additionally, the 6 previously-approved direct assignment carriers have elected to remain carriers for the 2006 Plan Year, thus further de-populating the assigned risk plan.
- The Department streamlined the rate approval process to attract more insurers to South Carolina. Homeowners' rate filings for a +/-7 percent increase or decrease are no longer subject to strict prior approval and insurers may begin using rates on a file and use basis, unless disapproved the Department prior to that date. This new filing procedure does not preclude a thorough review but does offer a simplified process, thereby reducing the time it takes to complete a review and get new products to the market.
- South Carolina's average overall homeowners' insurance premium growth from 2004 – 2005 was 9.27%. 27 new companies were licensed to write property business in South Carolina, bringing the total number to 104 companies writing homeowners' insurance.
- The Department hosted a Property Insurance Forum in Charleston, attended by more than 125 representatives from 107 companies and agencies, to discuss and promote the favorable business, legal and regulatory environment in South Carolina.
- Working with the University of South Carolina's Government Research and Services Division, the Department conducted process reviews throughout the agency, including Market Services, Special Licensing, Rates and Forms, and Consumer Services, to identify ways to more efficiently deliver services to South Carolina consumers and companies conducting business in the state. Improved efficiency has been achieved in each of these sections, such as:
 - In the past, when an application for licensing of an individual was received, the Department had to request a copy of a criminal history report from the State Law Enforcement Division (SLED). Applicants now send a copy of their SLED report with their application, reducing the time to approve a license by at least three weeks.
 - Special Licensing renewals had previously been done on an annual basis. A simple change to biennial renewals will result in a projected savings of \$700 annually in postage alone. Staff time previously given to a yearly renewal will save one to two weeks annually for each license renewal.
 - The Department's Market Services area is receiving electronic filings via the System for Electronic Rate and Form Filing (SERFF) network and filings still submitted by paper are now

fully accounted for. New procedures were implemented to process rate and form filings with deadlines established for each filing type.

- Special Licensing and Individual Licensing areas have incorporated audit standards to confirm that licenses are consistently meeting success standards on a daily basis.
 - The Consumer Services Division handled 2,598 written complaints, 66,000 telephone calls/inquiries, and 213 walk-in visitors. Previously, only written complaints were being recorded and tracked. The Department now captures information regarding telephone inquiries and complaints that will enable the Department to better monitor insurer behavior in the marketplace and to determine whether a market conduct examination is warranted.
 - A remote deposit machine was purchased to allow the Department to make its significantly large bank deposits electronically, saving time and travel costs. Because the Department has online access, the Department is able to detect and process returned items in a more timely manner.
 - The State CIO's IT Planning & Management Services completed a Strategic Technical Assessment of the Department's IT operations in November 2005. The Department adopted the following recommendations: 1) virtual CIO support; 2) workstation upgrades; 3) software upgrades; 4) online payment system upgrade to accept credit card payments; 5) implementation of an imaging/document management system; and conversion to Exchange e-mail system.
- The Department exceeded its goal of processing 50% of individual licensing applications through the National Insurance Producer Registry (NIPR), a subsidiary of the NAIC that processes non-resident producer licenses and appointments via electronic transmission. The Department actually processed 64% of licensing applications through NIPR.
- The Office of Human Resources (OHR) conducted desk audits for the entire Department. OHR staff met with and interviewed each employee to review their position descriptions and gather specific information about their job duties to determine if employees were appropriately classified in the State classification system. OHR also performed an analysis of Department salaries to ensure equity among staff.
- The Department achieved its objective of recruiting and retaining employees with necessary education, skills and credentials. Significant changes in the following areas were made:
- Because maintaining the solvency of the insurance industry is one of the Department's most important functions, a new Deputy for Financial Services was hired who has more than 20 years of insurance, reinsurance and captive industry experience, and who is dedicated 100% to financial services.
 - In the ARTS area, a new program manager with more than 10 years of captive industry experience was hired to manage the day-to-day operations of the captives program.

- The Property & Casualty and Life, Accident & Health divisions have been combined into a single Rates and Forms section with a new manager who has more than 15 years of financial and management experience in the insurance industry.
- The Legal Division has two new attorneys, one with extensive insurance litigation experience and the other with extensive insurance product and coverage knowledge.
- The Department has enhanced employee retention by strengthening the career ladder for financial examiners and is in the process of creating a similar ladder for financial analysts. Also, the Employee Performance Management System (EPMS) has been modified and updated to support attainment of academic and professional credentials for employees.

3. Key Strategic Goals for the Present and Future Years

The Department is presently developing a meaningful and useful Strategic Plan that will focus on the following goals:

- Improving the Department's resource alignment.
- Improving efficiency through technology.
- Developing an agency workforce plan to ensure the continuity of operations.
- Increasing the Department's visibility and credibility among stakeholders.
- Revising the South Carolina Code of Laws relating to insurance.
- Increasing the use of SERFF (an electronic rate and form filing system) among insurers.

Each division of the Department will continue to develop new goals on an ongoing basis to promote continuous improvement.

4. Opportunities and Barriers

The Department continues to work toward developing a more efficient and streamlined work process. In preparing our Strategic Plan, we have identified many opportunities to help achieve this goal and to overcome the identified barriers:

Opportunities

- Technological advancement (use of NAIC data; automation of processes; making information more available and accessible; imaging; real-time financial information).
- Workforce planning (to build a stronger workforce).
- Regulatory modernization (to rewrite the insurance code).
- Individual training plans for staff.
- "Pay for Performance" plan.

Barriers

- Lack of process documentation.
- Lack of financial resources.
- Lack of staff and supervisory training and succession planning.
- Inability to attract and maintain staff with core technical competencies.
- Poor resource alignment for budgeting and forecasting needs.
- Outdated insurance code and document retention schedules.
- Internal culture resistant to change.

The identified opportunities will be included in our Strategic Plan and will serve as goals for the coming fiscal year. Likewise, elimination of the identified barriers will be a priority for the Department.

5. Using the Accountability Report to Improve Organizational Performance

Because the Department is in the process of preparing a Strategic Plan, the Accountability Report becomes even more important as we use it as the foundation to guide our efforts in that area. The strategic planning process involves the assessment of customer needs and the re-design of Department programs and processes, and procedures to align with those needs, as well as an ongoing evaluation of performance against benchmarks and standards. As the Department's strengths, weaknesses, opportunities and threats are clearly identified, the Accountability Report will be used to ensure that the Department is meeting both the internal and external objectives set forth in our mission.

The Accountability Report and the results of the strategic planning process will serve to clearly communicate the Department's organizational mission, goals and objectives to its customers, employees and other state agencies, and will promote continuous improvement within the Department.

Section II – Organizational Profile

1. Main Products and Services

The principal products and services offered by the Department include: licensing; providing educational programs for individuals and other persons transacting the business of insurance in South Carolina; solvency regulation; consumer protection; and review of insurance rates and products to ensure compliance with state law. These services are offered through the Consumer and Legal Services, Market Services, and Financial Services Divisions.

The Consumer and Legal Services Division monitors insurance market practices and provides insurance regulatory enforcement services for the state. The Office of Consumer Services reviews, responds to and assists South Carolina's consumers with problems related to their insurance coverage. This office also provides information to consumers about where they may obtain insurance coverage. The Office of General Counsel (Legal Division) investigates complaints and instigates administrative disciplinary actions against persons violating South Carolina insurance laws.

The Division of Market Services consists of the following offices: 1) Insurance Education Services and Pre-licensing; 2) Individual Licensing Services; 3) Special Licensing Services; and 4) Rates and Forms. Through the Market Services Division, the Office of Insurance, Education and Pre-licensing Services reviews and approves sponsors, instructors, proctors and courses for both pre-licensing and continuing education. The Office of Individual Licensing Services licenses producers, agencies, brokers, adjusters, public adjusters, appraisers, bail bondsmen, runners and surety bondsmen. Additionally, the Office of Special Licensing is responsible for issuing licenses to third party administrators, premium service companies, service contract providers, and utilization review agents. The Office of Rates and Forms reviews insurance rates and forms to ensure that insurance rates are not excessive, inadequate, or unfairly discriminatory and that the insurance products offered for sale in this state comply with South Carolina law.

The Financial Services Division licenses insurance companies, monitors solvency by examining their financial condition and operations, regulates their marketing practices through market analysis and market conduct examinations, and maintains statutory deposits submitted to the Department for the protection of South Carolina policyholders. In addition, it is responsible for rehabilitation and/or liquidation of

insolvent insurance companies. These services are performed through the Office of Financial Analysis and the Office of Examinations. The Office of Alternative Risk Services provides similar services for South Carolina's growing captive insurance industry and other alternative risk transfer mechanisms.

2. Key Customer Segments and Their Key Requirements/Expectations

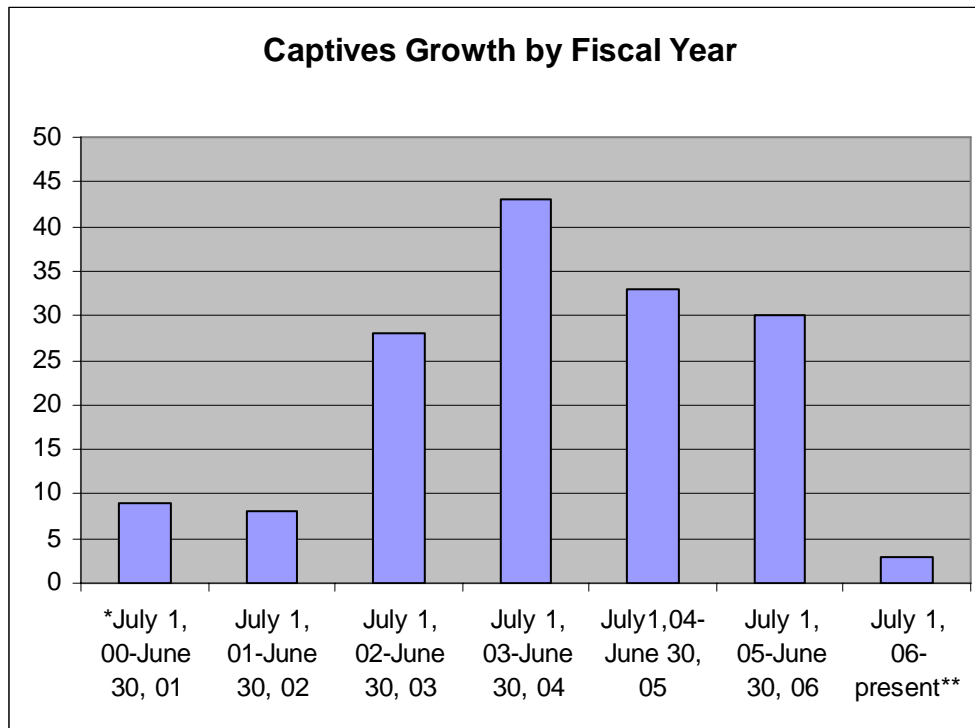
All citizens of South Carolina are key customers of the Department as they are affected by insurance, in one way or another, on an almost daily basis. Other key customers are the insurance industry and the insurance marketplace generally. The Department is, first and foremost, a regulatory agency, but also has consumer education and outreach responsibilities and marketplace development duties.

The Consumer and Legal Services Division enforces the insurance laws of the State of South Carolina. The Department monitors the trade practices of its licensees through its Office of Consumer Services (Consumer Services). The Department analyzes the number and types of complaints received from South Carolina citizens to determine whether the licensee has: 1) engaged in an unfair trade practice; 2) used unapproved rates or forms; or 3) otherwise violated the insurance laws of the state. Allegations that a licensee has violated the state's insurance laws are forwarded to the Office of Legal Services for investigation and administrative action, if necessary. South Carolina law gives the Director discretion to fine, suspend, or revoke the license of an individual transacting the business of insurance in our state.

The complaint data compiled by the Office of Consumer Services is used for market analysis purposes. This data is analyzed by the Department's market analysis staff and is a critical part of the process in determining whether a market conduct examination should be conducted by the Department.

The Department's Financial Services Division licenses insurers, monitors and examines their financial condition and market practices, and is responsible for liquidating insolvent insurers. This Division has three operating areas: 1) Financial Examinations, responsible for conducting comprehensive examinations of all domestically licensed insurance companies at least every one to five years; 2) Financial Analysis, responsible for reviewing all domestically licensed insurance companies' annual and quarterly financial statements; and 3) Market Regulation, responsible for identifying market disruptions and market conduct issues in order to take corrective action to minimize harm to the consumer.

The ARTS section is structured similarly, with a Financial Examination unit and a Financial Analysis unit. In addition to the licensing and ongoing regulation of captive insurers, this section is responsible for maintaining the favorable business climate needed for the continued development of the alternative risk market. As such, South Carolina is now considered a mature captive domicile and has the reputation of having knowledgeable, skilled captive regulators, making our state the third largest domicile for captive insurance companies in the United States. During the past fiscal year, the Department licensed 30 new captive companies in South Carolina, bringing the total of licensed captives to 152.



The Market Services Division is responsible for reviewing certain rates, rules and policy forms of insurers for compliance with state law. The Agent Licensing and Education section is responsible for licensing agents and insurance-related entities, including continuing education vendors. Consumer Services receives and responds to consumer inquiries and complaints. The General Counsel's office enforces the insurance laws of the state, including disciplinary actions, suspension and revocation proceedings and represents the Department in rate actions and other contested matters.

Consumer education and outreach is handled by both the Consumer Services section and the Executive Division through the Public Information Officer and the Director. These activities are carried out via the Department's website, brochures and speaking engagements.

The Director and other Executive Division staff are actively engaged in marketplace development activities, such as property insurance forums and numerous other industry events and meetings at which the Department's "open for business" message is communicated. Additionally, the Executive Division participates in NAIC activities and provides assistance to the legislative and executive branches of government, federal and state, on insurance matters, changes to existing insurance laws and resolution of constituent issues.

The Department's Administrative Division includes the following areas and responsibilities:

- Finance and Accounting – includes accounting, budgeting, strategic and financial planning and analysis, payroll processing, revenue collection, procurement, facilities, and administrative support services.
- Human Resources – includes employee recruitment and selection, employee relations, classification and compensation, organizational development, employee training, supervisory support, and human resource analysis and planning.
- Records Management and Auxiliary Services – includes records management, file storage and historical retention schedules.

- Information Technology – includes applications development and maintenance, data processing operations, network operations, project management, and information technology planning and analysis.

3. Key Stakeholders

The Department's stakeholders have been clearly identified as consumers/citizens, legislators, the insurance industry, other government agencies, and the NAIC.

4. Key Suppliers and Partners

The Department works with a number of suppliers and vendors. The following is a listing of the businesses and organizations with whom we conduct business on a regular basis: State Budget and Control Board, CIO's Office (for technology infrastructure) and Office of Human Resources; South Carolina Department of Corrections, Industries Division; Gateway Company; J.M. Grace Corporation; Herald Office Systems; Kosi Office Systems; Minolta Corporation; Mac Paper Supply Company; General Services Print Shop; Dell Computer Corporation; Thomson Prometric (for continuing education courses); and Prestige Travel Services.

Each state Department of Insurance has a unique opportunity to partner with national organizations which are established to provide assistance to assist state regulators in serving the public interest. The National Association of Insurance Commissioners, based in Kansas City, Missouri, is an association of state and US territory insurance commissioners designed to promote uniform and consistent insurance regulatory practices throughout the country. The National Insurance Producer Registry, a subsidiary of the NAIC, provides electronic processing of non-resident producer licenses. The National Council of Compensation Insurance serves as the statistical agent for workers' compensation insurance in South Carolina, and acts as administrator of the state's Assigned Risk Plan.

5. Operation Locations

The Department's main office is located at 300 Arbor Lake Drive, Suite 1200, Columbia, SC 29223. The Department maintains a small office at 145 King Street, Suite 311, Charleston, SC 29401, for meetings and other activities related to the Captives program.

6. Number of Employees

During fiscal year 2005 – 2006, the Department had 72 classified employees, 5 unclassified employees and 7 temporary employees.

7. Regulatory Environment

The Department operates within the regulatory framework provided in Title 38 of South Carolina's Code of Laws, which charges the Department with responsibility for regulating the business of insurance in South Carolina. In addition, a number of federal laws and regulations enhance, modify or limit the scope of the Department's regulatory authority.

Because the NAIC's mission is to assist state insurance regulators in serving the public interest, the Department relies upon the guidance and resources it provides. While no statute mandates our

involvement with the NAIC, it is an excellent resource from which we draw to ensure that the insurance marketplace remains healthy, competitive and sound.

8. Key Strategic Challenges

The Department continues to address performance measurement issues that hamper its ability to determine and measure success. This effort will result in data improvements that will be useful in making decisions related to strategic planning, resource allocations, and program management.

While the Department has made progress in improving its human capital management, actions to comprehensively assess its workforce still need to be taken, including identifying the number of employees needed to accomplish our mission, what technical skills are required, and how best to allocate employees among strategic goals. Because the human resource alignment plan is a challenge, the Department needs to continue its progress in developing a system to ensure a well-trained and motivated workforce with the right combination of skills and experience.

The Department has invested considerable time and resources in developing innovative regulatory initiatives to encourage a more efficient and cost-effective business environment. Under its innovation strategy, which will be included in the Strategic Plan for FY 2007-2008, the Department has made progress by its commitment to developing a system that places more emphasis on results and also focuses on revising the South Carolina Code of Laws relating to insurance issues.

Another key challenge is to use the enterprise architecture (state-based system) developed in recent years by the NAIC to identify cost-effective solutions for replacing outdated technology. Once specific action plans and transition strategies are in place, the Department must commit a significant investment of staff and funding to develop and implement those solutions. In doing so, another key challenge will be to ensure the availability of sufficient staff with the necessary skills to complete these modernization projects.

Because availability and affordability of insurance is always a challenge for insurance consumers, solvency monitoring is one of the most important services provided by the Department. Increasingly, however, insurance departments are being required to find ways to ensure the availability and affordability of various insurance products. Effectively addressing this issue will be a challenge for regulators for years to come since there are a number of factors influencing insurance availability (i.e., the insurer's capacity to offer insurance products) that are beyond the control of the regulator. These factors include, but are not limited to, climate changes, market performance and consumer behavior.

Since the passage of the Gramm-Leach-Bliley Act (GLBA), there appears to be more of an impetus for a federal insurance regulator. The GLBA permitted the formation of financial services companies, including banking, insurance and securities. The financial holding companies could create affiliate companies to conduct business in any of the financial industries. For many years, both the banking and securities industries had been licensed and regulated at the federal level, although licensing and regulation also occurs at the state level for banking institutions. In fact, of the total banking institutions operating in the United States today, approximately two-thirds are chartered by the states.

With the convergence of insurance and financial services, some institutions and their national trade associations are advocating that insurance companies should be given the option of obtaining a federal charter, as occurs in the banking industry. Supporters of an optional federal charter argue that it is cumbersome for insurance companies to be regulated by 50 different regulators and that insurers should

be given the same option as banking institutions to be chartered and regulated by either the federal government or the states. State regulation of insurance is specifically authorized by the McCarran-Ferguson Act.

In 1945, Congress enacted the McCarran-Ferguson Act that specifically delegated to the states the regulatory authority over insurers. The act grants states primary and preemptive responsibility for regulation of insurance. The act reads, "No act of Congress shall be construed to invalidate, impair or supersede any law enacted by any state for the purpose of regulation of the business of insurance...unless such act specifically relates to the business of insurance." In fact, the business of insurance has been regulated by the states since insurance companies first began operating in this country. For more than 200 years, the states have overseen insurance company operations with respect to solvency and market conduct. GLBA reaffirmed state regulation of the business of insurance. Despite this reaffirmation and efforts by the NAIC to modernize state insurance regulation, federal insurance legislation is introduced annually, calling for either a federal regulator or that some lines of insurance be regulated by the federal government.

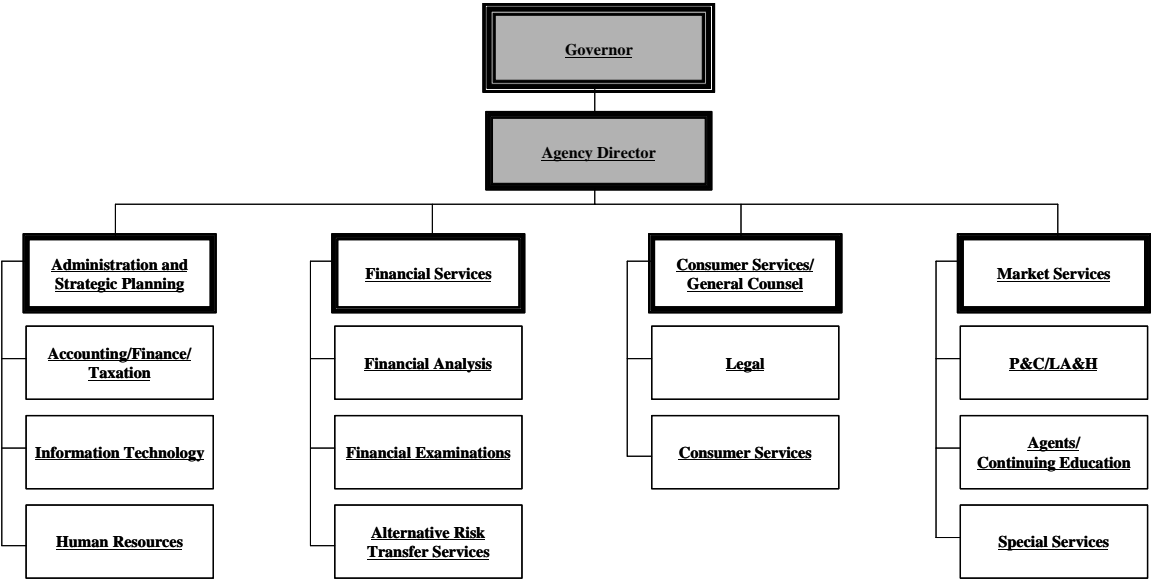
Federal regulation of the business of insurance could result in the loss of more than \$10 billion in premium tax revenues for the states if state insurance regulation is curtailed. South Carolina could lose \$120,000,000-\$160,000,000 annually in premium tax revenues. Regulators, insurers, and producers recognize the need to modernize regulation of the business of insurance. However, the reform process will require some time before the improvements will be enacted and implemented. Insurance regulation is a complex matter and any change to the process should not be undertaken without thorough review and analysis of the impact of change on the consumers and policyholders the industry serves.

9. Performance Improvement System(s)

The Department maintains an organizational focus on performance improvement through the use of the Employee Performance Management System, through on-site and off-site training, and through direct communication and feedback with managers, supervisors and/or Deputy Directors.

The Director has worked diligently to bring private sector business management practices to the Department by establishing performance standards, measuring and evaluating performance, and being accountable for performance. Planning stages were done for all employees and, on July 1, 2006, the Department transitioned to a universal review date, with an EPMS evaluation having been completed for every employee. Managers in every functional area are now able to track and monitor work activity in their areas and ensure that we are in compliance with statutory and other deadlines for licensing, rate and form filings and examinations, and that our constituents' needs are met in a timely manner.

10. Organizational Structure



11. Expenditures/Appropriations Chart

	FY 04-05 Actual Expenditures		FY 05-06 Actual Expenditures		FY 06-07 Appropriations Act	
Major Budget Categories	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,885,718	\$2,444,487	\$4,280,560	\$2,645,754	\$4,584,759	\$2,822,540
Other Operating	\$1,805,458	\$445,769	\$2,171,917	\$197,985	\$4,018,217	\$846,486
Special Items	\$0	\$0	\$0	\$0	\$0	\$0
Permanent Improvements	\$0	\$0	\$0	\$0	\$0	\$0
Case Services	\$0	\$0	\$0	\$0	\$0	\$0
Distributions to Subdivisions	\$1,862,108	\$0	\$1,182,258	\$0	\$1,307,391	\$0
Fringe Benefits	\$1,008,657	\$668,784	\$1,072,006	\$703,842	\$1,208,345	\$764,886
Non-recurring						
Total	\$8,561,941	\$3,559,040	\$8,706,741	\$3,547,581	\$11,118,712	\$4,433,912

Other Expenditures

Sources of Funds	FY 04-05 Actual Expenditures	FY 05-06 Actual Expenditures
Supplemental Bills	\$45,308	\$52,328
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

12. Major Program Areas Chart

Program Number and Title	Major Program Area Purpose (Brief)	FY 04-05 Budget Expenditures	FY 05-06 Budget Expenditures	Key Cross References for Financial Results*
I. Admin	Administration, Office of General Counsel, Information Resource Management (IRM), Executive Services	State: 1,986,915.00 Federal: Other: 95,261.00 Total: 2,082,176.00 24% of Total Budget:	State: 1,777,040.00 Federal: Other: 536,166.00 Total: 2,313,206.00 26% of Total Budget:	7.1 7.2 7.3 7.4 7.5
II.A Solvency	Solvency: Financial Examination, Market Conduct Examinations, Financial Analysis, Securities, Custodian and Historical Databases	State: 256,244.00 Federal: Other: 1,502,338.00 Total: 1,758,582.00 21% of Total Budget:	State: 295,526.00 Federal: Other: 1,253,881.00 Total: 1,549,407.00 18% of Total Budget:	7.1 7.3
II.B Licensing	Licensing: Individual Licensing, Company, Insurer/HMO Licensing, Education, Special Services Division, Third Party Administrator Licenses, Utilization Review and Service Contract Providers	State: 111,365.00 Federal: Other: 396,786.00 Total: 508,151.00 6% of Total Budget:	State: 119,305.00 Federal: Other: 797,351.00 Total: 916,656.00 10% of Total Budget:	7.2 7.3 7.5
II.C Taxation	Taxation	State: 90,889.00 Federal: Other: Total: 90,889.00 1% of Total Budget:	State: 98,864.00 Federal: Other: 23,672.00 Total: 122,536.00 1% of Total Budget:	7.3 7.5
II.D Consumer Services	Consumer Services, Requests for Assistance, Consumer Insurance Education, Market Assistance Program (MAP), Disaster Response	State: 268,880.00 Federal: Other: Total: 268,880.00 3% of Total Budget:	State: 383,718.00 Federal: Other: 140,901.00 Total: 524,619.00 6% of Total Budget:	7.2 7.3
II.E Policy Forms and Rates	Policy Forms and Rates: Review, Financial Condition and Residual Markets, Consumer Assistance	State: 566,032.00 Federal: Other: Total: 566,032.00 7% of Total Budget:	State: 611,328.00 Federal: Other: 403,486.00 Total: 1,014,814.00 12% of Total Budget:	7.1 7.5
II. F Uninsured Motorists	Uninsured Motorists	State: Federal: Other: 2,404,484.00 Total: 2,404,484.00 28% of Total Budget:	State: Federal: Other: 1,182,258.00 Total: 1,182,258.00 14% of Total Budget:	7.5
II.G Captives	Captives	State: 278,715.00 Federal: Other: 433,659.00 Total: 712,374.00 8% of Total Budget:	State: 261,800.00 Federal: Other: 821,445.00 Total: 1,083,245.00 12% of Total Budget:	7.1 7.5
II.H HRSA State Planning Grant	HRSA State Planning Grant Program	State: Federal: 170,373.00 Other: Total: 2% of Total Budget:	State: Federal: Other: Total: 0% of Total Budget:	7.2

Below: List any programs not included above and show the remainder of expenditures by source of funds.

Remainder of Expenditures:	State: 45,308.00 Federal: Other: Total: % of Total Budget:	State: 52,328.00 Federal: Other: Total: 1% of Total Budget:
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- Key Cross-References are a link to Category 7 - Business Results. These References provide a Chart number that is included in the 7th section of this document.

Section III – Elements of Malcolm Baldrige Criteria

1. Leadership

1.1 (a-f) How do senior leaders set, deploy, and ensure two-way communication for: a) short and long term direction and organizational priorities; b) performance expectations; c) organizational values; d) empowerment and innovation; e) organizational and employee learning; and f) ethical behavior?

The leadership of the Department consists of three levels: the executive staff, managers and supervisors. The executive staff is comprised of the Director and four Deputy Directors; there are 9 managers and 10 supervisors. Through her leadership team, the Director is working to effectively communicate the mission, goals and organizational values of the Department to all employees. This is being accomplished primarily through division, section and unit meetings, training sessions and other activities. The Director meets with her deputies frequently and regularly to discuss overall direction and initiatives. Subsequent meetings of the deputies with their management and supervisory staffs allow this information to be shared with front-line employees, thus ensuring consistent communication on the short and long term goals of the Department.

The Department is currently working to review and update its workflow and production processes, and to develop objective performance measures for each activity. The Department has implemented a universal review date of July 1 for the Employee Performance Management System, which is used to develop performance plans for key services and functions. The EPMS communicates management's expectations for each employee and informs the employee of the specific performance measures that will be used to evaluate his or her job performance. Ethical behavior is the foundation of all employee performance, and job performance that is not ethical is simply not acceptable from any employee. The Department has revised, updated and expanded its policies and procedures manual to further highlight the expectation that all employees will adhere to the highest standards of ethical behavior.

EPMS is an ongoing, two-way communication tool in which managers and employees collaborate to identify and find solutions to issues, problems and inefficiencies in the Department's processes that compromise the Department's ability to accomplish its mission. To further empower employees and ensure that they have the technical and other skills necessary to effectively perform their jobs, the Department utilizes numerous state and industry resources to provide training and professional development for employees. Employees attending these various programs, conferences and seminars share what they have learned with other employees through in-house training programs.

1.2 How do senior leaders establish and promote a focus on customers and other stakeholders?

The Department's mission is specifically customer-focused and senior leadership continually reinforces this effort by closely monitoring the Department's handling of consumer inquiries and complaints, responsiveness to industry filings and enforcement of insurance laws and regulations for the protection of the public.

1.3 How does the organization address the current and potential impact on the public of its products, programs, services, facilities and operations, including associated risks?

As an agency charged with protection of the public interest, the Department continually evaluates the ramifications of its activities on consumers. The Department solicits feedback from consumers in a variety of ways: on our website; through consumer inquiries/complaints; speaking engagements around the state; etc. We are continuing to explore cost-effective options for additional consumer outreach programs to both educate consumers and receive more feedback.

1.4 How do senior leaders maintain fiscal, legal, and regulatory accountability?

The Department maintains a strong system of checks and balances to ensure that fiscal, legal and regulatory accountability are maintained. Frequent meetings between legal counsel, the budget/finance manager and the procurement specialist facilitate compliance with established guidelines.

1.5 What key performance measures are regularly reviewed by your senior leaders?

Current key performance measures include analysis of consumer inquiry/complaint data to identify market conduct patterns, analysis of licensing data to evaluate cycle times and roundtable meetings with the insurance industry to receive feedback on the Department's responsiveness with regard to filings. Additional key performance measures, organizational objectives and operational plans are being developed in conjunction with our process review initiative.

1.6 How do senior leaders use organizational performance review findings and employee feedback to improve their own leadership effectiveness and the effectiveness of management throughout the organization? How do their personal actions reflect a commitment to the organizational leaders?

Senior leaders review previous outcomes, activity data, budget items and reports on progress toward departmental goals and objectives regularly, and are able to adjust and modify their management plans accordingly to maximize overall effectiveness. Specific issues are addressed and changes in day-to-day operations are made as needed. Frequent communication between divisions further facilitates an integrated approach to delivering services by breaking down barriers within the Department.

1.7 How do senior leaders promote and personally participate in succession planning and the development of future organizational leaders?

More than 10% of the Department's employees are either participating in the TERI plan or eligible for retirement. Management has identified those employees in mission-critical roles and is evaluating other employees to determine if they will be able to fill those roles and whether additional training is needed. New employees are now hired with specific attention to their ability to progress to higher levels of responsibility. Additionally, formal procedures are being developed and documented so that crucial institutional knowledge and history is retained.

1.8 How do senior leaders create an environment for performance improvement, accomplishment of strategic objectives, and innovation?

Weekly division and section meetings are utilized to set and communicate key organizational priorities for improvement and to develop specific action plans. Through these meetings and subsequent meetings with

employees, all employees are expected to evaluate his or her role and performance in achieving the Department's goals.

In addition, the Department has stressed the need for supervisors/managers to be aware of all human resources policies and procedures as they relate to their job position, as well as to the employees they supervise. In the fall of 2005, the Office of Human Resources provided training on the following topics:

- 1) Role of Supervisor
- 2) Interviewing and Selection
- 3) Goal Setting
- 4) Building Positive Working Relationships
- 5) Developing Others
- 6) Motivation
- 7) Delegation
- 8) Measuring Progress
- 9) Evaluating Employees (EPMS)
- 10) Diagnosis of Performance Problems
- 11) Substandard Performance and Progressive Discipline
- 12) Grievance and Mediation
- 13) Advocating for Employees

1.9 How does senior leadership actively support and strengthen the communities in which your organization operates? Include how senior leaders and employees contribute to improving these communities.

The Department and its senior leadership actively support and strengthen communities by encouraging employee involvement in community activities and Department employees regularly speak and/or provide information and assistance to community organizations. In addition to its regulatory responsibilities, the Department is represented on a number of state boards, commissions, committees and task forces, including the S.C. Budget and Control Board Cost Containment Committee, the Governor's Workers' Compensation Task Force, the Workers' Compensation Advisory Board, and the Commission on Healthcare Access, among others. In addition, the Director serves as an officer of the Southeastern Zone of the NAIC and chairs many significant NAIC working groups.

At least once a year, employees are encouraged to support charitable organizations that help the community, such as the United Way, the American Red Cross, and Community Health Charities. Several employees donate blood at the American Red Cross on a regularly scheduled basis. Payroll deduction is available for contributions to many charities.

2.

Strategic Planning

Strategic Planning Chart

Program Number and Title	Supported Organization Strategic Planning Goal/Objective	Related FY 05-06 Key Action Plan/Initiative(s)	Key Cross References for Performance Measures*
I. Administration II. Program Services	Improve the Department's resource alignment	1. Identify resource allocation priorities (people, time, budget) 2. Identify the GAP between current allocations and the desired state 3. Develop effective departmental budgets 4. Explore opportunities to generate additional revenue	7.3, 7.4
I. Administration II. Program Services, B, G	Improve efficiency through technology	1. Manage record storage using data imaging technology 2. Increase electronic commerce (EFT/Credit Card) 3. Create an electronic system for Captives area 4. Automate application and renewal process, premium tax collection, enterprise (state-based) system 5. Migrate from Group Wise to MS Exchange (Outlook)	7.2, 7.3
I. Administration II. Program Services	Develop an agency workforce plan to ensure the continuity of operations	1. Identify and prioritize key jobs (positions) that need to be addressed 2. Identify knowledge transfer targets and staff knowledge gaps in order to create a succession plan 3. Document agency work processes 4. Create training plans for employees, including cross-training 5. Review the use of consultants and temporary employees 6. Evaluate recruitment and selection process and identify possible improvements 7. Improve the communication of Agency goals and values to staff 8. Create a disaster recovery plan	7.1, 7.2, 7.4
I. Administration II. Program Services	Increase the Department's visibility and credibility among stakeholders	1. Articulate stakeholder needs and expectations and prioritize outreach efforts 2. Improve access to information via the Agency's website	7.1, 7.2, 7.5
I. Administration	Revise the South Carolina Code of Laws relating to insurance	1. Create an outline of proposed Code of Law changes by line of business 2. Draft bill(s) to initiate legislative action and identify sponsors	7.1, 7.2
II. Program Services, E	Increase the use of SERFF (an electronic rate and form filing system) among insurers	1. Communicate to insurers the availability of newly revised SERFF and the advantages of using it	7.1, 7.5

2.1 What is your Strategic Planning process, including KEY participants, and how does it address: a) your organization's strengths, weaknesses, opportunities and threats; b) financial, regulatory, societal and other potential risks; c) shifts in technology or the regulatory environment; d) human resource capabilities and needs; e) the opportunities and barriers you described in the Executive Summary; f) business continuity in emergencies; and g) your ability to execute the strategic plan.

Working with analysts from the Office of Human Resources (OHR) of the South Carolina Budget and Control Board, the Department is currently developing a three-year Strategic Plan, with participation from staff representing all of the Department's program areas. The strategic planning process is guided by a Planning Work Group, which includes approximately 12 decision-makers representing all of the Department's functional areas working together on information technology resource issues, strategic and business planning, and other efforts requiring collaboration.

OHR is facilitating and providing direct technical assistance related to the development of a strategic plan. The following activities have been an integral part of the planning sessions:

- Conducting a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis with the Planning Work Group, resulting in a current SWOT profile for the Department.
- Developing broad goals and specific, measurable objectives for the Strategic Plan.
- Developing performance measures for the identified goals and objectives.
- Identifying timeframes for attainment of the strategic objectives, assigning organizational responsibility for attainment of the objectives, and designing a follow-up approach for monitoring progress and, when needed, modifying the plan.

While the primary developers of the Strategic Plan are the members of the Planning Work Group, input from all of the Department's programs is encouraged and used, along with extensive participation from others.

2.2 What are your key strategic objectives?

As stated earlier, the Department is in the process of developing a meaningful and useful Strategic Plan, focusing on the following key strategic objectives:

- Improving the Department's resource alignment.
- Improving efficiency through technology.
- Developing an agency workforce plan to ensure the continuity of operations.
- Increasing the Department's visibility and credibility among stakeholders.
- Revising the South Carolina Code of Laws relating to insurance.
- Increasing the use of SERFF (an electronic rate and form filing system) among insurers.

2.3 What are your key action plans/initiatives?

In developing the Department's Strategic Plan, we have identified internally focused objectives and externally focused objectives. In doing so, the following action plans have been identified to accomplish each objective.

Internally Focused Objectives

- Improve the Department's resource alignment
 1. Identify resource allocation priorities (people, time, budget)
 2. Identify the gap between current allocations and the desired state
 3. Develop effective departmental budgets
- Improve efficiency through technology
 1. Manage record storage using data imaging technology
 2. Increase electronic commerce (EFT, Credit Card)
 3. Create an electronic system for the Captives area
 4. Automate application and renewal process, premium tax collection, and enterprise (state-based) system
 5. Migrate from Groupwise to MS Exchange (Outlook)
- Develop an agency workforce plan to ensure the continuity of operations
 1. Identify and prioritize key jobs (positions) that need to be addressed
 2. Identify knowledge transfer targets and staff knowledge gaps in order to create a successful plan
 3. Document agency work processes
 4. Create training plans for employees, including cross-training
 5. Review the use of consultants and temporary employees
 6. Evaluate recruitment and selection process and identify possible improvements
 7. Improve the communication of agency goals and values to staff
 8. Create a disaster recovery plan

Externally Focused Objectives

- Increase the Department's visibility and credibility among stakeholders
 1. Articulate stakeholder needs and expectations and prioritize outreach efforts
 2. Improve access to information via the Department's website
- Revise the South Carolina Code of Laws relating to insurance
 1. Create an outline of proposed Code of Law changes by line of business
 2. Draft bill(s) to initiate legislative action and identify sponsors
- Increase the use of SERFF among insurers
 1. Communicate to insurers the availability of the newly revised SERFF and the advantages of using it

2.4. How do you develop and track action plans that address your key strategic objectives?

Most of the Department's strategic objectives are Department-wide in scope and every deputy is responsible for developing tactical plans to achieve those objectives within his or her area of responsibility. For those objectives that relate only to a particular division, the Director and/or the deputy for that division are responsible for achieving those objectives. In management meetings between the Director and the Deputy Directors, the objectives, plans and progress toward implementation and achievement are reviewed. Certain funds are program-specific and are used to support related strategic and operational goals and objectives. Internal division budgets are being developed to track non-program specific funds that support other goals and objectives.

2.5 How do you communicate and deploy your strategic objectives, action plans and related performance measures?

The Department's overall Strategic Plan, including objectives and action plans, are communicated to the divisions and sections through the frequent management meetings with deputies, through the deputies' regular meetings with their managers and supervisors, through written memos and through Department-wide meetings. Most process reviews have been finalized and performance measures have been developed for those processes. These performance measures provide the foundation for the planning stage of the EPMS, further conveying the Department's overall strategic plan to all employees.

2.6 How do you measure progress on your action plans?

The Department's action plans are closely aligned with its overall Strategic Plan, with success criteria being specific, measurable and quantifiable, when possible. Therefore, each individual tasked with accomplishing each action plan has a clear-cut and unambiguous directive, providing for clear measurement of the Department's progress.

Each division within the Department maintains correspondence, data logs and monthly reports, including responses and follow-up, as well as assignment completion times. Ongoing analysis of the reports and information provided by each division allow the Director and executive staff to monitor the status of the various insurance mechanisms and administrative responsibilities of the Department.

2.7 How do your strategic objectives address the strategic challenges you identified in your Organizational Profile?

One of the principal challenges identified in the Department's Organizational Profile is developing performance measures across programs. Also, the Department's strategic objectives require performance measurement across related programs.

Developing results and measures for related programs faces formidable challenges, conceptual and analytical issues associated with measuring multiple programs, cultural and other barriers rooted in long-standing practice, and resource limitations. However, developing performance measures achieves and demonstrates cost-effective government to stakeholders, consumers, and the citizens of our state. Additionally, the development of such measures serves to:

- Encourage an outcome orientation throughout all facets of planning;
- Establish a regular and pervasive process to evaluate progress and change as needed;
- Develop component and other supplemental plans if useful;
- Make clear the linkage between daily activities and the strategic mission; and
- Monitor external and contextual factors continuously.

2.8 If the agency's strategic plan is available to the public through the agency's internet homepage, please provide an address for that plan on the website.

3. Customer Focus

3.1 How do you determine who your customers are and what their key requirements are?

Our customers are primarily defined by statutes and by our mission statement as insurance consumers, the general public and the insurance marketplace. Many of their key requirements are likewise dictated by statute. Ancillary customers and requirements are determined through interaction with consumers, industry, legislators and federal, state and local government officials.

An understanding of customer key requirements evolves over time as customers and stakeholders provide feedback and refine their expectations and needs. Customer input and involvement is desired and expected in this process. The Department is constantly exploring customer requirements and the services we provide to ensure that needs are being met. Ongoing engagement and communication is critical to our success.

3.2 How do you keep your listening and learning methods current with changing customer/business needs and expectations?

The Director, the deputies and other Department staff are in continuous communication with consumers, industry and other government officials. We attend and participate in numerous industry conferences and consumer outreach activities, and serve on many boards, committees and task forces comprised of representatives of industry, consumers and other government agencies. Additionally, we leverage those constituencies to provide training and updates to Department staff from time to time. The Department strongly encourages open lines of communication so that our listening and learning methods stay current in order to serve our customers to the best of our ability.

3.3 How do you use information from customers/stakeholders to keep services or programs relevant and provide for continuous improvement?

The Department gains valuable and much-needed feedback from our customers/stakeholders through the various communication mechanisms and forums described above, and we are guided by that feedback in determining the appropriate level and delivery of services. Program and performance data are reviewed by management to ascertain the need for modifications in services or programs in order to better assist our customers/stakeholders.

3.4 How do you measure customer/stakeholder satisfaction and dissatisfaction, and use this information to improve?

While the Department does not currently use formal customer satisfaction surveys on a Department-wide basis, its managers conduct random telephone surveys with individual complainants to gauge our overall responsiveness and service delivery. Consumers are asked to respond to the following questions:

CONSUMER/STAKEHOLDER TELEPHONE SURVEY

SURVEY QUESTION	RESPONSE
How were you received by the agency?	
Was the analyst courteous?	
Was the analyst helpful, professional and knowledgeable [about the line of business]?	
Did you find the information useful?	
Did we respond to your complaint/concern in a timely manner?	
Overall, were you satisfied with the service that you received from the Department?	
How could we assist you better in the future?	

The Department relies heavily on feedback from the telephone survey of our customers/stakeholders. We use this feedback to prioritize training opportunities and other types of professional development. Analysts are counseled about their responsiveness and knowledge of a particular line of insurance depending upon the information received.

In the past, the Department has used formal customer satisfaction surveys with positive results: 90+% satisfactory. We are exploring ways customer satisfaction surveys can be used for the diverse constituencies served by the Department, and are currently considering the use of electronic surveys to reach the Department's stakeholders.

3.5 How do you build positive relationships with customers and stakeholders? Indicate any key distinctions between different customer groups.

Through formal conferences and other programs, as well as informal meetings and activities, the Department has successfully developed collaborative relationships with its customers and stakeholders. They are generally impressed with the staff's knowledge of insurance laws and the insurance products offered in the state. Additionally, most stakeholders appreciate timely responses and a willingness to assist, even though they may not necessarily agree with the outcome.

4. Measurement, Analysis, and Knowledge Management

4.1 How do you decide which operations, processes and systems to measure for tracking financial and operational performance, including progress relative to strategic objectives and action plans?

Many of the Department's performance measures are directed by statute or other legal or governmental authority. After ensuring compliance with those requirements, senior leadership further defines other operations, processes and systems that should be measured.

4.2 How do you use data/information analysis to provide effective support for decision making throughout your organization?

Data/information reports are generated weekly from upper management level to staff level. Management uses these reports to ensure that pending projects are being completed by their respective deadlines and to keep abreast of market conditions and changes. The operational data gathered from individual program areas is reviewed by senior leadership, managers and supervisors weekly, monthly, quarterly and/or annually, based on programmatic requirements, and this informs the decision-making process.

4.3 What are your key measures, how do you review them, and how do you keep them current with business needs and direction?

The Department has undergone a reorganization of its management structure which has resulted in new, different and/or expanded roles for senior leadership. The Department's leadership reviewed the agency's performance measures to ensure that they support outcomes and goals derived from our mission. Various approaches are used to solicit staff input, including involvement in the strategic planning process and ongoing discussions throughout the various division levels. Stakeholder and individual contacts help staff ensure that the public interest is considered and that customers and stakeholders are aware of the proposed measures.

We have identified the following as our key measures, along with the performance measures listed, to ensure that the Department stays current with our customers' and industry needs:

- **Monitoring Insurance Company Solvency**

This activity protects consumers by monitoring the solvency of insurance carriers and health maintenance organizations authorized to conduct business in South Carolina. Solvency issues may be identified through market conduct examinations, financial examinations, consumer complaints, or financial analysis of statements filed by insurers.

Measure: Number of financial and market conduct examinations of insurers completed, number of consumers assisted, and insurer insolvencies prevented through the Department's early intervention.

- **Investigations and Enforcement**

Staff investigates and acts upon all violations of laws and rules. Staff also assists consumers with problems involving insurance sales or marketing practices by agents, brokers, or insurers.

Measure: Number of investigations completed.

- **Consumer Information and Advocacy**

Staff responds to oral and written complaints and inquiries from consumers regarding insurance companies, and acts as an advocate when appropriate. Assistance is rendered to enforce the various provisions of the insurance code and is based on authority to take disciplinary action against an insurance company and other licensees. The unit's primary function is to ensure that consumer rights have not been violated. Staff also provides information to help consumers make educated decisions about insurance purchases.

Measure: Number of consumer inquiries received assisted and answered.

- **Regulation of Insurance Rates and Forms**

Staff reviews and approves the complex actuarial formulas, assumptions, and experience data submitted as part of a proposed rate filing to ensure rates are neither excessive, inadequate, nor unfairly discriminatory. Timely and accurate review is necessary to assure the financial viability of the insurance company, as well as protecting South Carolina citizens from overcharges. Policy forms are reviewed to ensure that the terms and conditions of the insurance contract comply with state and federal laws prior to sale in South Carolina.

Measure: Number of Rates and Forms filings staff reviews per year and average number of days required to finalize the filing review process for rate and form filings.

- **Agent and Broker Licensing and Education**

Staff involved in this activity issue and renew licenses for agents, brokers, adjustors, and others. Staff also administer continuing education requirements.

Measure: Number of agents, brokers, adjustors, and others licensed and/or appointed. Number of producers who meet Continuing Education requirements.

4.4 How do you select and use key comparative data and information to support operational and strategic decision making and innovation?

The selection and use of key data and information is critical in carrying out the Department's mission of protecting insurance consumers. For example, the NAIC publishes an annual Insurance Department Resources Report that provides data for the 50 states, the District of Columbia and the four territories, on staffing, budgeting and funding, examination and oversight, insurer and producer licensing, consumer services, etc. This information allows the Department to compare itself to our counterparts in other states and to develop relevant benchmarks for performance. The Department also collects and utilizes internal data to measure its performance to established goals and directives. We are continuing to explore

meaningful ways of comparing our performance to other states, other state agencies, and to our own performance from prior periods. We are also considering what types of inter-departmental comparisons might be useful.

4.5 How do you ensure data integrity, timeliness, accuracy, security and availability for decision making?

Internal operational data is reviewed by management to ensure that accurate indicators of services are being captured and reported. We continuously review the need for additional controls to ensure the security of confidential data. We are also working with the CIO's office to establish appropriate monitoring systems to ensure the quality, reliability and availability of data used in decision-making.

4.6 How do you translate organizational performance review findings into priorities for continuous improvement?

Working with the University of South Carolina's Government Research and Services Division, the Department conducted process reviews throughout the agency, including Special Licensing, Rates and Forms, and Consumer Services, to identify ways to more efficiently deliver services to South Carolina consumers and companies doing business here. Many changes have been implemented, thus improving efficiency in a number of areas.

In addition to a lack of defined and well-documented processes, many areas of the Department's operations did not have any standards for performance of job functions. Timely, consistent and high-quality performance is particularly important in the Rates and Forms area, as there are statutory deadlines for reviewing filings. Moreover, delays by the Department prevent insurers from taking needed rate changes and/or releasing new products to consumers. All Rate and Form processes have been clearly defined, objective performance standards established for each process, and supervisors closely monitor and manage employee performance on a regular basis.

Detailed performance standards were also lacking in the ARTS financial analysis and examinations area, which is responsible for monitoring the solvency of captive insurers. Performance standards, both as to quantity and quality of work, have been established and all ARTS analysts and examiners are in compliance with NAIC guidelines.

Market Regulation is a new, discrete functional area within the Department, created to comply with NAIC recommendations for monitoring market conduct. Performance standards were developed and the Department has met or exceeded all NAIC benchmarks and, in fact, was the first state to complete initial market analyses of all of its domestic insurers.

Process reviews have already had a positive impact within the Department, particularly in the Market Services division. The changes which have been implemented have resulted in an orderly flow of correspondence received in and outside the area. In addition, collaborative efforts between the Department's Central Files section and the Rates and Forms section have resulted in a much more organized system.

4.7 How do you collect, transfer, and maintain organizational and employee knowledge (your knowledge assets)? How do you identify and share best practices?

As part of the Department's new Strategic Plan, one of our major goals is to develop an agency workforce plan to ensure continuity of operations. When an employee leaves the Department, a vast amount of institutional knowledge and experience is lost. To ensure that current and future employees are well-

equipped to either perform their current duties or assume new duties, the following initiatives are being developed:

- Clearly defined and documented work methods and procedures plan;
- Written documentation of the processes, methods, tools, and techniques used by employees with special skills and responsibilities;
- A documented training plan for employees to study, use and implement prior to the departure of any employee; and,
- Written documentation which captures “cross-over” information when assistance from other divisions and/or agencies is needed to complete specific job duties.

5. Human Resources

5.1 How do you organize and manage work: to enable employees to develop and utilize their full potential, aligned with the organization’s objectives, strategies, and action plans; and to promote cooperation, initiative, empowerment, innovation and your desired organizational culture?

Department employees are provided opportunities to develop their skills and expertise through various programs and mechanisms. The standard EPMS is used for a formal method of review since it is designed to communicate job requirements and success criteria for completing a task. Each individual EPMS strives to address the goals and objectives that have been established by the Director for the Department, thereby enabling each employee to contribute toward the agency’s goals and objectives. Employees are encouraged to take advantage of training opportunities offered through various federal, state and private organizations, including the Governor’s Office, the State Budget and Control Board, the Federal Emergency Management Agency/National Flood Insurance Program, the NAIC and industry product information.

Each year, strategic goals are established for the agency in keeping with its mission statement. Additional mechanisms for involving employees in the activities of the organization include Department-wide staff meetings and an intranet site for employees, as well as e-mail postings regarding employees’ news and achievements. Employees receive the South Carolina Department of Insurance’s Policy and Procedures manual and orientation packet prior to their first day of the job.

5.2 How do you evaluate and improve your organization’s human resource related process?

The Department’s human resource process is evaluated by comparing the productivity of individuals and work units which have benefited from a specific human resource program and/or training to the productivity of individuals who have not had this benefit. In addition, the human resource process is evaluated on how effectively it is managed in accordance with state and federal laws, regulations and policies. Workforce planning, which includes workforce diversity and productivity, is an integral part of the Department’s human resources process and evaluation. Therefore, each of the Department’s managers is responsible for evaluating workforce planning efforts in their respective divisions.

5.3 How do you identify and address key developmental and training needs, including job skills training, performance excellence training, diversity training, management/leadership development, new employee orientation and safety training? How do you evaluate the effectiveness of this education and training? How do you encourage on the job use of the new knowledge and skills?

Training needs are addressed primarily through communication between employees and their supervisors with respect to existing and on-going job duties. Other training may be provided as new duties, processes or procedures are imposed by the NAIC or other third parties. The Department has had conversations

with OHR and other agencies concerning the general need for various types of training for Department employees. In order to meet this goal, it was necessary to first identify those functions and positions that were core to the Department's mission as distinguished from support functions. Additionally, an assessment of employee skills, training and experience was performed. With the results of those two studies, the Director was able to prioritize resources to mission-critical areas, recruit new employees with the appropriate technical and professional expertise, and reassign existing employees consistent with their interests and abilities and the Department's needs.

Many Department employees had not received any meaningful training or professional development. Working with Midlands Technical College, the following courses were scheduled for and attended by Department employees:

- 1) Business Grammar (13 employees)
- 2) Business Letter Writing (17 employees)
- 3) Managing Multiple Projects, Priorities and Deadlines (4 employees)
- 4) Word 2003 Introduction (11 employees)
- 5) Excel 2003 Introduction (15 employees)
- 6) Telephone Skills (10 employees)
- 7) Setting Goals (9 employees)
- 8) Delegation (7 employees)

Because the Department regulates an extremely complex and ever-changing insurance industry, it must have employees with the appropriate technical and professional expertise to regulate that industry in an efficient and effective manner. A new Deputy for Financial Services was hired who has more than 20 years of insurance, reinsurance and captive industry experience, and who is dedicated 100% to financial services. Previously, this important function was handled by a deputy who was the general counsel and also responsible for rates and forms.

In the ARTS area, a new program manager, with more than 10 years of captive industry experience, was hired to manage the day-to-day operations of the captives program. The former manager, a highly skilled and capable actuary, is now able to concentrate on complex, sophisticated captive financial transactions. A Department employee with extensive financial examinations training and experience, who was functioning as the Accounting Manager, is now a supervising examiner in ARTS where his skills and expertise can be better utilized. The Property & Casualty and Life, Accident & Health divisions have been combined into a single Rates and Forms division and a new manager was hired who has more than 15 years of financial and management experience in the insurance industry. The Legal Division has two new attorneys, one with extensive insurance litigation experience, and the other worked for two insurance companies prior to coming to the Department.

The Department is also taking other steps to enhance employee retention by strengthening the career ladder for financial examiners and creating a similar career ladder for financial analysts, reinstituting and reinvigorating the Employee Performance Management System and supporting attainment of academic and professional credentials for employees. For the first time ever, the Department has successfully achieved a Universal Review Date of July 1 for each employee.

5.4 How does your employee performance management system, including feedback to and from employees, support high performance and contribute to the achievement of your action plans?

In order for employees to perform at a high level, they must first understand the mission, goals and objectives of the Department. Additionally, they should have some input into the development of action plans for meeting the goals and objectives. Communication is key. Through use of the EPMS, the

Department expects to improve supervisor-employee communications, which is the most effective means of supporting high performing employees. The EPMS also serves as the primary tool for documenting and evaluating employee performance, thereby increasing productivity. The Department expects to increase the overall effectiveness and productivity of its workforce through improved employee performance.

5.5 How do you motivate your employees to develop and utilize their full potential?

The Department encourages all employees to develop and use their full potential in alignment with the Department's goals and objectives. As part of the Department's reorganization, an attempt has been made to assess employees' strengths and weaknesses, to improve on weaknesses through training, where feasible, and to make better use of employees in positions suited to their skills.

5.6 What formal and/or informal assessment methods and measures do you use to determine employee well being, satisfaction, and motivation? How do you use other measures such as employee retention and grievances? How do you determine priorities for improvement?

The Department does not use a formal assessment method at this time for measuring employee satisfaction. Employee satisfaction issues are measured using informal methods through staff meetings, direct employee feedback and individual conversations. The Department has been improving employee satisfaction by workflow improvements, paperwork reduction, reduced time to complete tasks and other office performance issues. The Department has had only 1 grievance during the past 3-year period. Employee turnover has been due to better career advancement opportunities with larger agencies.

5.7 How do you maintain a safe, secure, and healthy work environment? (Include your workplace preparedness for emergencies and disasters.)

The Department is located in a facility that offers a safe, secure and healthy work environment in a park-like setting. Employees are provided with a manual of safety policies and procedures and ongoing training is held for employees with respect to general office safety and security and specific staff actions that are necessary in the event of an emergency.

The Department has defined and documented the requirements to successfully run the department during a disaster. We have documented those requirements and are working with local companies to support us in the event of a disaster. The Department's computer data is backed-up daily, stored in a fire-proof safe and transported off-site to a secure location on a regular basis. Within the past six months, our backed-up data was restored and retrieved to ensure that our back-ups are valid.

In addition to ensuring the safety of our employees, the Department is committed to assisting with the insurance needs of our residents during a natural disaster. When warranted by the Director, specially trained volunteers are deployed to the disaster location and stationed, as a general rule, in the State/FEMA-designated Disaster Field Office, working directly with disaster victims in expediting insurance claims. A Disaster Response Coordination Plan, which provides procedures to ensure a well-coordinated response to any natural disaster that may affect the Department and the citizens of our state, has recently been revised and is maintained at the Department to be used as necessary.

6. Process Management

6.1 What are your key processes that produce, create or add value for your customers and your organization? How do you ensure that these processes are used?

The Department's key processes that we use as goals to provide value to our customers are:

- Promoting industry participation;
- Improving information gathering and reporting;
- Developing community/industry outreach and communication plans;
- Reviewing, revising and developing policies to ensure program responsiveness to citizens' needs;
- Creating performance benchmarks and an evaluation process to improve program effectiveness; and
- Developing an ongoing evaluation process to monitor and assess the implementation of new strategies.

These processes enhance and reinforce the Department's specific mission of being customer-focused and customer-driven.

Other key processes are financial analysis and examination, licensing, consumer services and rate and form approval. These processes support the Department's mission of protection of the consumer, the public interest and the insurance marketplace by ensuring solvency, enforcing the insurance laws of the state and making insurance products available to consumers and businesses at an affordable rate.

6.2 How do you incorporate organizational knowledge, new technology, changing customer and mission-related requirements, cost controls, and other efficiency and effectiveness factors such as cycle time into process design and delivery?

While the Department's mission does not change, the range of activities necessary to achieving that mission are changing and growing. Leveraging new technology with organizational knowledge has been and will continue to be critical to the ongoing success of the Department and our ability to perform those wide-ranging activities. The Department's website has proven both efficient and effective for dealing with many of our customers. Additionally, insurers may now make certain rate and form filings electronically. Since many process reviews have been completed, we have identified and implemented numerous opportunities to make our process design and delivery more efficient and effective.

6.3 How does your day-to-day operation of these processes ensure meeting key performance requirements?

The Department's key processes are specifically related to its mission to protect the insurance consumer, the public interest and the insurance marketplace. All aspects of daily operations are reviewed on a regular basis by managers and supervisors and recommendations are made to leadership for changes to improve the Department's processes. Additionally, the Department recently worked with an independent third party to conduct comprehensive reviews of all of the Department's processes to identify opportunities for improvement. Most of those opportunities for improvement have been implemented.

6.4 How do you systematically evaluate and improve your key product and service related processes?

As stated earlier, the Department passed its fifth five-year accreditation review conducted by the NAIC in May, 2006. Because the review focused on the Department's Financial Examination and Financial Analysis sections, valuable feedback on ways to improve the Department's examinations and analysis

processes and procedures was provided. The Department was re-accredited, with both areas receiving superior scores, demonstrating our commitment to excellence. During the re-accreditation process, the NAIC provided valuable feedback and recommendations on ways to improve our examinations and analysis processes and procedures, which have either already been implemented or are currently in the process of being implemented. In addition, the Financial Services section is in constant communication with the private sector and receives constant feedback from the insurance companies it regulates.

6.5 What are your key support processes, and how do you improve and update these processes to achieve better performance?

The Department's key support processes are: legal, human resources, finance and accounting, central files, information technology and procurement. While output from the key support processes are delivered to Department staff and not to customers directly, those processes have a direct impact on the Department's ability to meet the needs and expectations of its customers. Each support process work unit functions under its own performance measures and is continuously improving and upgrading in response to internal and external feedback. This is accomplished through:

- Involving administrative support supervisors in establishing strategic program priorities.
- Integrating key support functions into the strategic planning process.
- Communicating the message throughout the Department to ensure thoroughness of input and clarity of expectations.
- Adopting a process for planning, managing, and evaluating support function contributions.
- Using benchmarking to set performance targets, standards, and measures for key administrative support objectives.

7. Results

7.1 What are your performance levels and trends for the key measures of mission accomplishment and organizational effectiveness?

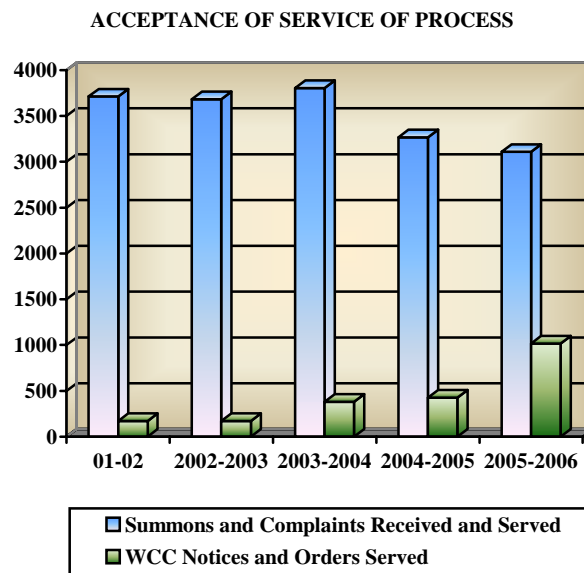
The Department protects consumers by monitoring market conditions, enforcing state and federal laws and regulation, and ensuring insurer solvency (i.e., insurers are able to meet their policyholder obligations). The Department also makes certain that necessary standards are in place to ensure the equitable and efficient regulation of the insurance industry. Alleged violations of South Carolina's insurance laws are referred to the Office of the General Counsel for the appropriate investigative action.

The Office of General Counsel has been reorganized along product lines to facilitate the delivery of legal services. This new structure permits counsel to develop expertise in specific areas. It also affords counsel the opportunity to provide legal support as necessary to the Department and its various program areas. The Office of General Counsel provides support to management on a variety of issues, although enforcement is one of its primary functions.

In addition to the enforcement of the South Carolina insurance laws, the Office of General Counsel provides legal support to all areas within the Department by providing advice and counsel and training as needed. In addition, it represents the Department before state and federal tribunals in matters involving the Department or insurance regulation. It also provides a variety of other legal services including, but not limited to, acceptance of service of process, drafting of general legal documents, bulletins, requests for proposals, contracts and legislation. As a part of its enforcement function, the Legal Division is

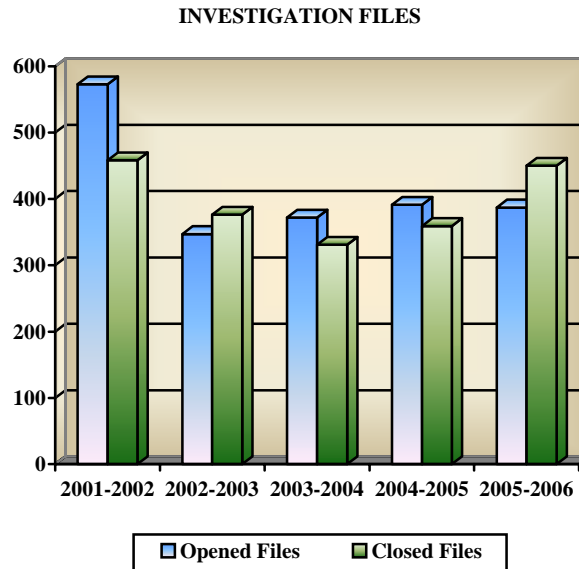
responsible for investigating violations of South Carolina insurance laws and taking administrative disciplinary action, where appropriate.

The acceptance of service of process is a ministerial function performed by the Department. South Carolina law requires service of the summons and complaint upon the Director of Insurance before any civil lawsuit may be maintained in the state. Accordingly, the Department's Director is the registered agent for service of process for all insurers transacting business within the State of South Carolina. The table below shows the number of civil complaints the Department served during the past fiscal year. Based upon these numbers, there was a 1% decrease in the number of summons and complaints in civil actions, and more than a 100% increase in the number of pleadings from the South Carolina Workers' Compensation Commission.



The Office of General Counsel is responsible for enforcing the insurance laws of this state. Accordingly, allegations of violations of the laws are investigated and administrative disciplinary action instituted, where appropriate. The number of investigations opened by the Department during the past fiscal year decreased by 1%. However, 25% more files were closed during the 2005-06 fiscal year than in the previous year. The increase in the number of closed files may be attributed to the review and closure of files that had been pending for some time.

During this past fiscal year, \$269,803 in administrative fines was imposed. The Department also revoked the licenses of 66 licensees. In a few major investigation files, policyholder relief was ordered in lieu of imposing an administrative fine or other administrative disciplinary action.



The Office of General Counsel is currently handling 5 South Carolina and 9 ancillary receiverships. During the 2005-2006 fiscal year, the Director suspended 1 insurer license, revoked 1 license and placed 1 company in ancillary receivership due to hazardous financial conditions.

The Division of Financial Services is responsible for: monitoring the financial solvency and trade practices of insurers transacting business in South Carolina; licensing insurers and health maintenance organizations; and enforcing South Carolina insurance laws and regulations regarding solvency. Financial examinations are performed on each domestic insurer at least once every five years and at least once every three years for each domestic health maintenance organization. These comprehensive examinations, as well as interim or additional limited or targeted examinations, test internal controls, management issues and the financial condition of the company. In addition to being required every three or five years, these examinations must be completed and examination reports issued within specific time periods. During this fiscal period, 24 examinations were initiated. This reflects a 25% increase in the number of examinations initiated compared to the past fiscal year.

The Market Services division is responsible for reviewing and approving Property and Casualty and Life, Accident and Health insurance rates and forms, and reviewing and approving requests for individual and non-insurer licensing requests.

The Rates and Forms area of the Market Services division is responsible for ensuring that the insurance consuming public is protected through technical review of insurance contracts and rate filings. This area has adopted a high standard for reviewing rates and forms filings to make certain that insurance products are handled with dispatch to avoid delay of insurers getting their products to market in a timely manner. Insurers making filings with the Department must now use a standard format for requesting changes to their contracts and rates. This uniform standard allows for clearer communication between the Department and the industry.

The Individual and Special Licensing areas have the task of ensuring that all licensing requests are completed within 72 hours of receipt of a properly completed application. These areas are responsible for licensing insurance producers, adjusters, public adjusters, appraisers, agencies, bail bondsmen, third party administrators, premium services companies, and service contract providers.

7.2 What are your performance levels and trends for the key measures of customer satisfaction?

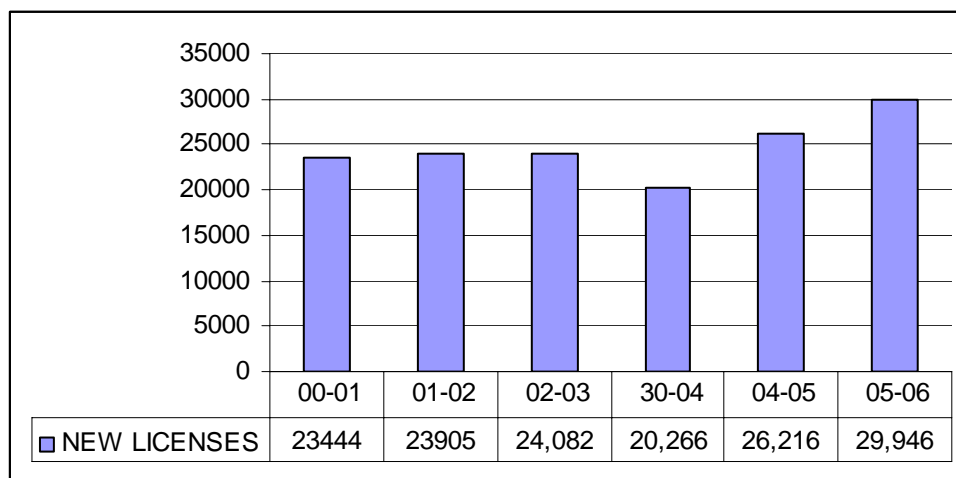
While the Department does not currently utilize formal customer satisfaction surveys on a Department-wide basis, managers follow-up by telephone with customers on a random basis to gauge our overall responsiveness and service delivery. Additionally, we rely heavily on informal feedback from our customers. Some areas have sent out surveys in the past with very good response and very good results indicating a 90+% satisfactory rating. We are currently exploring ways in which customer satisfaction surveys can be used for the diverse constituencies served by the Department.

The Department provides customer services through its five organizational divisions. Executive Services provides assistance to the legislative and executive branches of government regarding the creation of new statutes and regulations, as well as constituent matters. The Executive Division handled approximately 150 constituent complaints during the past fiscal year.

Consumer Services provides assistance to consumers with the resolution of claims and/or complaints through various mechanisms, including e-mail, telephone and faxed requests for assistance. There was a 1.5% decrease in the number of requests for assistance in fiscal year 2005-2006 compared to the previous fiscal year.

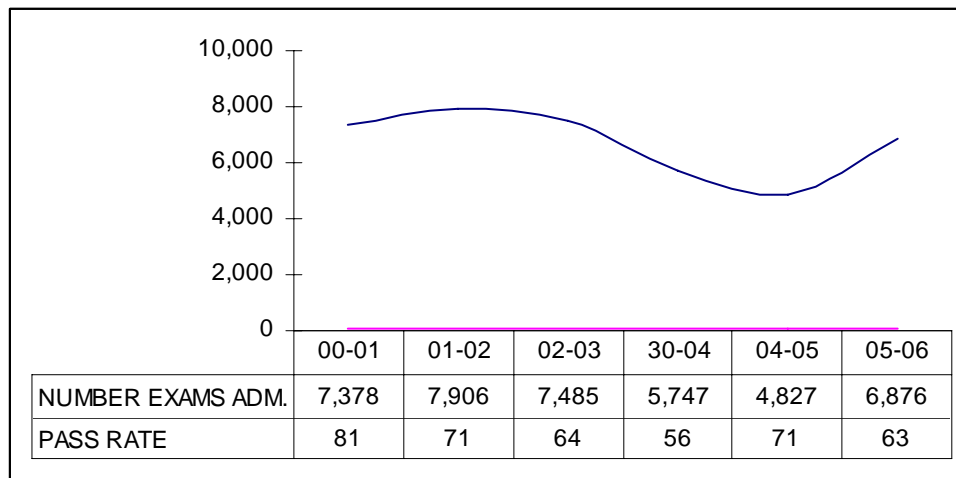
Agent Licensing issues producer, agency, broker, public adjuster, and appraiser licenses. The Department issued 29,946 licenses during the 2005-2006 fiscal year, an increase of 14.2% over the 2004-2005 fiscal year.

INDIVIDUAL/AGENCY LICENSING



The Continuing Education section provides oversight for continuing education courses and the individual examination process. The overall number of examinations administered during the 2005-2006 fiscal year period increased by 2,049, or 42.5%. The overall passing rate of 63.38% was slightly lower than last year's rate of 71%.

INSURANCE EXAMS ADM/PASS RATE



7.3 What are your performance levels for the key measures of financial performance?

One of the major challenges facing the Department is aligning performance accountability structures with existing budget account structures. Our objective is to modify the Department's current budget structures to achieve effective alignment with performance-based results.

The budget structure has evolved over many years on an incremental basis. In the past, the Department's budget and accounts were adapted many times to service various purposes and accounts, resulting in a collection of accounts. This collection of accounts that made up the budget structure has presented a major challenge.

Our current budget process requires that resources be identified with and in support of program goals and that those resources be used, tracked, and assessed in relation to program and division goals. This approach will help facilitate a comparison of program services with their costs and will help in the allocation of limited resources to the Department's highest priority activities.

7.4 What are your performance levels and trends for the key measures of Human Resource Results (i.e., work system performance, employee learning and development, employee well-being, employee satisfaction, diversity, and retention)?

Human Resources plays a key development role in the process review initiative currently being undertaken by the Department. Human Resources is included in the Department's planning and development of Department goals, objectives and action plans. The Department's leadership team and Human Resources are working together to fully integrate human resources management into the planning process so that it will become a fundamental and contributing factor to Department planning and operations. Since the Department has refocused its activities to broader organizational issues, these measures will be expanded to gauge the impact that Human Resources has on the Department's mission and goals so that such information is used in Department decision-making.

The Department has a diverse workforce at all levels, including its leadership. Workforce diversity is a key element in the planning of leadership recruitment and development programs. Ongoing workforce assessment is carried out to measure the effectiveness of efforts to address workforce diversity. Evaluation activities include analysis of reports required for the Department's affirmative action plans,

particularly for women and minorities, and persons with disabilities. In addition, evaluation efforts in the area of diversity are coordinated with strategic recruiting efforts to determine the best sources of qualified applicants from targeted groups. The overall Equal Employment Opportunity (EEO) goal attainment for 2005 was 96%, which the Department met.

7.5 What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?

The Department is responsible for the regulation of the insurance industry in an efficient, courteous, responsive, fair and equitable manner. The Department accomplishes this mission through professional services which include, but are not limited to, examinations and audits of insurance underwriters, consumer education, outreach and assistance; premium tax and fee collection on behalf of the state and its subdivisions; prior review of insurance premium rate and insurance policy forms; and the licensure of insurers and insurance-related individuals and entities.

The Life, Accident and Health and the Property and Casualty sections within the Market Services Division review insurance policy forms and rates to ensure that they do not contain provisions that are unfair, deceptive, ambiguous, misleading or unfairly discriminatory. These reviews are generally completed within a 30-60 day period depending upon the type of policy form. Certain property and casualty rate filings are subject to a “flex-band” in which rate changes of +/-7% may be implemented within 30 days of filing if not disapproved by the Department within that timeframe. For fiscal year 2005-06, there was an increase of 5.5% in Life, Accident and Health rate and form filings and a 5.9% decrease in Property and Casualty rate and form filings.

The Market Services Division assists in solvency monitoring by providing technical assistance on financial condition examinations, providing actuarial analysis on loss reserves, assessing company practices with regard to claims operations and evaluating market conduct practices. Contracted actuarial assistance was provided for 14 examinations of insurance companies during fiscal year 2005-2006.

The supervision of residual market mechanisms is a responsibility of the Market Services Division. Those organizations include: the South Carolina Associated Auto Insurers, South Carolina Wind and Hail Underwriting Association, South Carolina Reinsurance Facility, South Carolina Medical Malpractice Joint Underwriting Association, the South Carolina Property and Casualty Guaranty Association, South Carolina Life, Accident and Health Guaranty Association, the South Carolina Health Insurance Pool, South Carolina Workers’ Compensation Assigned Risk Plan and the South Carolina Small Employer Insurer Reinsurance Program. Department staff attend meetings and participate in committee work.

The Financial Services division strives to maintain the highest possible standards to ensure South Carolina’s insurance market remains solvent, strong, and competitive. Performance levels are measured against specific duties and responsibilities required by state law, as well as guidelines established by the NAIC. State law requires that every domestically licensed insurance company be examined at least every three to five years, depending on the type of license held. Also, insurance company quarterly and annual financial statements are analyzed for solvency, and are verified for accuracy and completeness. The Market Regulation area regularly reviews insurance company practices and procedures, and also identifies trends in the insurance marketplace that may be harmful to consumers so that corrective action can be taken. Because all reviews of financial data must be completed promptly to ensure that problematic situations can be addressed in a timely fashion, all professional services provided by the Financial Services division are extremely time-sensitive. The Department’s recent re-accreditation by the NAIC provides clear evidence that the Financial Services division is committed to maintaining the highest standards of insurance company regulation.